



April 6, 2010

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TO: Each Supervisor

FROM: John F. Schunhoff, Ph.D. 
Interim Director

SUBJECT: **DEPARTMENT OF HEALTH SERVICES' (DHS)
FISCAL OUTLOOK (BOARD AGENDA,
APRIL 6, 2010)**

John F. Schunhoff, Ph.D.
Interim Director

Robert G. Splawn, M.D.
Interim Chief Medical Officer

This is to provide a Summary of Changes in the DHS Fiscal Outlook (Attachment I) since our last Budget Committee of the Whole report to your Board on January 26, 2010. As indicated in the Summary of Changes, the current estimated shortfalls are \$(200.0) million for Fiscal Year (FY) 2009-10 and \$(625.8) million for FY 2010-11. The developments contributing to these changes are summarized in the attached Summary of Changes.

Key Factors Impacting DHS Fiscal Outlook

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The estimated shortfall for FY 2010-11 increased from the January report primarily due to revised estimates for Vehicle License Fee and Sales Tax Realignment revenues, increases in commercial paper costs, and restoring Rancho Los Amigos National Rehabilitation Center to the Department's fiscal forecast based on your Board's March 16, 2010 action.

*To improve health
through leadership,
service and education.*

Additional costs associated with the Olive View/UCLA Medical Center's Emergency Department Expansion and the operation of a sub-acute tuberculosis unit are now in the forecast. The operation and timelines associated with these two projects are currently being discussed with the Chief Executive Office.

As previously reported, the Governor's proposed State budget for FY 2010-11 includes \$750 million in unspecified Medi-Cal reductions. Combined with the loss of federal matching funds, and depending on whether or not the Federal Medical Assistance Percentage (FMAP) is extended to June 2011, the total cut to the Medi-Cal program could be as high as \$2.0 billion. The State has yet to provide clarification on what specific Medi-Cal reductions are targeted. There may also be additional program reductions by the State in its May Revised Budget Proposal.



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Health Care Reform

The passage of health care reform is expected to have an overall positive impact on the Department. There are provisions to expand Medi-Cal eligibility beginning in 2014 to cover non-pregnant, non-disabled adults with income at or below 133% of the Federal Poverty Level, with the FMAP rate at 100% through 2016, phasing down to 90% FMAP in 2020. A significant number of our uninsured patients will be covered under the expanded Medi-Cal program. There are also reductions in Disproportionate Share Hospital (DSH) funding beginning in 2014. The net benefit of the DSH reductions and the anticipated increase in Medi-Cal revenue is likely to depend on what the reimbursement rates are and how many patients will stay in the DHS system once they have other care options.

Potential Solutions to Reduce FYs 2009-10 and 2010-11 Deficits

The Department continues its focus on the Hospital Provider Fee, the FMAP extension, and the 1115 Waiver as potential ways to mitigate the Department's deficit. However, even optimistically assuming the best outcome for all of these objectives, the additional revenues are insufficient to resolve the Department's structural deficit. The Department anticipates that some part of Tobacco Settlement funding will be necessary to balance its FY 2009-10 budget.

Hospital Provider Fee

The Centers for Medicare and Medicaid Services' (CMS) approval of the Hospital Provider Fee remains pending. It is our understanding that CMS has concerns with the structure of the fee. If approved, the effective date of the approval will determine the dollar impact on the Department. The possible effective dates are as early as October 2008 and as late as July 2009. The value of each quarter is approximately \$34.3 million so the earlier the effective date approved by CMS is, the more positive the impact on the Department's outlook.

FMAP Extension

An extension to the enhanced FMAP rate, 61.59% for California, is included in the Jobs bill, which remains pending at this time. The Department will continue to actively monitor any developments on this issue.

1115 Waiver

It is our understanding that CMS will begin reviewing the State's budget neutrality calculation in the next few weeks. The Department is participating on the State's Waiver Stakeholder Advisory Group which has met twice so far, with another meeting scheduled in May. Also, the Department has provided the State with a proposal,

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developed in discussions with L.A. Care, for the transition of Medi-Cal Seniors and Persons with Disabilities into managed care, which is one of the State's Waiver goals. The Department continues to actively collaborate with the California Association of Public Hospitals and Health Systems (CAPH) and other stakeholders, and continues to engage the State directly on Waiver concerns.

The Department's ability to mitigate its FYs 2009-10 and 2010-11 budget shortfalls remains limited. The relative success of efforts to secure the Hospital Provider Fee, the FMAP extension, and the 1115 Waiver will determine the level of impact on the Department's budget. The overall financial picture for the Department is difficult to project given the high level of uncertainty as to whether these potential revenue streams will be approved or not.

To illustrate the various fiscal impacts which could potentially result from the different components and timelines, the Department has updated the scenarios previously provided in the January report (see Attachment II). However, even if these revenues are fully realized, the Department believes Tobacco Settlement funding will still be necessary to close the budget gap.

If you have any questions or need additional information, please let me know.

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Attachments (2)

c: Chief Executive Office
County Counsel
Executive Office, Board of Supervisors

COUNTY OF LOS ANGELES - DEPARTMENT OF HEALTH SERVICES
SUMMARY OF CHANGES IN THE DHS FISCAL OUTLOOK
JANUARY 6, 2010 THROUGH MARCH 22, 2010

		Fiscal Year / \$ In Millions					
		09-10	10-11	11-12	12-13	13-14	Total
(1)	Estimated <u>Cumulative</u> Year-End Fund Balances/(Shortfalls) - 1/6/10 ^(A)	\$ (213.1)	\$ (576.7)	\$ (1,021.9)	\$ (1,577.4)	\$ (2,247.2)	\$ (2,247.2)
<u>Subsequent Adjustments</u>							
(2)	Suspension of pursuing a private operator for Rancho Los Amigos National Rehabilitation Center per Board approval on March 16, 2010	-	(24.2)	(31.0)	(34.7)	(35.5)	(125.4)
(3)	Vehicle License Fee and Sales Tax Realignment revenues updates provided by CEO in March 201	(11.4)	(2.8)	(2.8)	(2.8)	(2.8)	(22.6)
(4)	Increased General County Overhead costs provided by Auditor-Controller in January 2010	-	(6.4)	(6.6)	(6.8)	(7.0)	(26.8)
(5)	OV/UCLA's Department of Emergency Medicine Expansion projected to operate in January 2011	-	(3.5)	(7.1)	(7.3)	(7.5)	(25.4)
(6)	OV/UCLA's sub-acute tuberculosis unit projected to operate in January 2011	-	(2.4)	(4.8)	(5.0)	(5.1)	(17.3)
(7)	Increased commercial paper costs provided by CEO-Real Estate Division in January 2011 (one-time adjustment)	-	(11.6)	-	-	-	(11.6)
(8)	Improvement in Coverage Initiative revenue for FYs 07-08 and 08-09 due to program changes	9.0	-	-	-	-	9.0
(9)	Lower than anticipated prior year expenditures due to cancellation of / reduction in commitments and accounts payables (one-time adjustment)	5.5	-	-	-	-	5.5
(10)	Implementation delay for various existing capital projects	10.3	(10.3)	-	-	-	-
(11)	Changes in current year operating forecast / Other minor updates to future estimates	(0.3)	(1.0)	(4.3)	0.4	(2.7)	(7.9)
(12)	Forecast improvement/(reduction) roll-forward	-	13.1 ^(B)	(49.1) ^(B)	(105.7) ^(B)	(161.9) ^(B)	-
(13)	Revised Estimated <u>Cumulative</u> Year-End Fund Balances/(Shortfalls) - 3/22/10 ^(A)	\$ (200.0)	\$ (625.8)	\$ (1,127.6)	\$ (1,739.3)	\$ (2,469.7)	\$ (2,469.7)

Notes

^(A) FYs 10-11 through 13-14 assume Medi-Cal Redesign 1115 Waiver extension at current levels.

^(B) These amounts represent the cumulative change in the forecast from the prior fiscal year. For example, the \$(161.9) million on Line# 12 in FY 13-14 is \$(1,739.3) million - \$(1,577.4) million from FY 12-13.

IDEAS FOR POTENTIAL SOLUTIONS

FISCAL YEARS 2009-10 AND 2010-11 (NON-CUMULATIVE) *

(\$ IN MILLIONS)

	FY 09-10	FY 10-11	Total	Comments
Estimated Year-End Balances/(Shortfalls) - before Adjustments for Financial Stabilization	(\$289.7)	(\$515.5)	(\$805.2)	
Financial Stabilization	89.7	89.7	179.4	
Estimated Year-End Balances/(Shortfalls) ⁽¹⁾	(\$200.0)	(\$425.8)	(\$625.8)	
<u>SCENARIO I - NO HOSPITAL FEE</u>				
> Waiver Extension - Status Quo	-	-	-	Assumes no change from current levels for FY 10-11
> Additional County Measure B fund	9.0	-	9.0	Use of one-time Measure B fund
> Additional Financial Stabilization (a 0.5% cut based on the FY 09-10 Final Budget - Net Appropriation)	8.6	17.2	25.8	DHS continues efforts on cost savings and maximizing revenues
> Tobacco Settlement fund	104.8	-	104.8	Use of Tobacco Settlement fund from the Designation Balance
> State Budget Impact	??	??	??	State may impose further funding reductions to solve its own deficit
Estimated Year-End Balances/(Shortfalls)	(\$77.6)	(\$408.6)	(\$486.2)	
<u>SCENARIO II - 18 MONTHS HOSPITAL FEE</u>				
> Waiver Extension - Status Quo	-	-	-	Assumes no change from current levels for FY 10-11
> Additional County Measure B fund	9.0	-	9.0	Use of one-time Measure B fund
> Hospital Provider Fee ⁽²⁾	137.0	68.5	205.5	Assumes effective July 1, 2009 through December 31, 2010
> Additional Financial Stabilization (a 0.5% cut based on the FY 09-10 Final Budget - Net Appropriation)	8.6	17.2	25.8	DHS continues efforts on cost savings and maximizing revenues
> Tobacco Settlement fund	45.4	59.9	105.3	Use of Tobacco Settlement fund from the Designation Balance
> State Budget Impact	??	??	??	State may impose further funding reductions to solve its own deficit
Estimated Year-End Balances/(Shortfalls)	\$0.0	(\$280.2)	(\$280.2)	
<u>SCENARIO III - 27 MONTHS HOSPITAL FEE + FMAP 6-MONTH EXTENSION</u>				
> Waiver Extension - Status Quo	-	-	-	Assumes no change from current levels for FY 10-11
> Additional County Measure B fund	9.0	-	9.0	Use of one-time Measure B fund
> Hospital Provider Fee ⁽²⁾	137.0	68.5	205.5	Assumes effective July 1, 2009 through December 31, 2010
> Additional Hospital Provider Fee (Additional Quarter)	34.3	-	34.3	Assumes effective date of April 1, 2009 (April - June 2009)
> FMAP Extension for 6 months (January - June 2011)	-	33.8	33.8	Assumes FMAP at 61.59% through June 2011
> Additional Hospital Provider Fee from FMAP Extension	-	68.5	68.5	Due to 6-month extension of FMAP (January - June 2011)
> Additional Financial Stabilization (a 0.5% cut based on the FY 09-10 Final Budget - Net Appropriation)	8.6	17.2	25.8	DHS continues efforts on cost savings and maximizing revenues
> Tobacco Settlement fund	11.1	94.5	105.6	Use of Tobacco Settlement fund from the Designation Balance
> State Budget Impact	??	??	??	State may impose further funding reductions to solve its own deficit
Estimated Year-End Balances/(Shortfalls)	\$0.0	(\$143.3)	(\$143.3)	
<u>SCENARIO IV - 27 MONTHS HOSPITAL FEE + FMAP 6-MONTH EXTENSION + NEW WAIVER</u>				
> Additional County Measure B fund	9.0	-	9.0	Use of one-time Measure B fund
> Hospital Provider Fee ⁽²⁾	137.0	68.5	205.5	Assumes effective July 1, 2009 through December 31, 2010
> Additional Hospital Provider Fee (Additional Quarter)	34.3	-	34.3	Assumes effective date of April 1, 2009 (April - June 2009)
> FMAP Extension for 6 months (January - June 2011)	-	33.8	33.8	Assumes FMAP at 61.59% through June 2011
> Additional Hospital Provider Fee from FMAP Extension	-	68.5	68.5	Due to 6-month extension of FMAP (January - June 2011)
> Additional Financial Stabilization (a 0.5% cut based on the FY 09-10 Final Budget - Net Appropriation)	8.6	17.2	25.8	DHS continues efforts on cost savings and maximizing revenues
> Waiver	-	150.0	150.0	The estimated value of the Waiver is \$450.0M Statewide. Estimate is based on LA County's current percentage of Waiver funding.
> Tobacco Settlement fund	11.1	87.8	98.9	Use of Tobacco Settlement fund from the Designation Balance
> State Budget Impact	??	??	??	State may impose further funding reductions to solve its own deficit
Estimated Year-End Balances/(Shortfalls)	\$0.0	\$0.0	\$0.0	

Notes:

* Amounts reflect:

- Federal Medical Assistance Percentage (FMAP) at 61.59% through December 2010 (unless indicated otherwise).

1) Estimates are per the DHS Fiscal Outlook dated 3/22/10.

2) Pending CMS' review and approval. Amounts may vary depending on the effective date of implementation and State's share.